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STATE FOR EAP AND EAP/K
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SUBJECT: DPRK FOOD SITUATION: BAD, AND POSSIBLY CRITICAL

Classified By: EconMinCouns Kurt Tong for reasons 1.4 (b,d).

SUMMARY

¶1. (C) We have recently seen a number of predictions that North Korea is, or will soon be, suffering a situation similar to the famine of the middle and late 1990's. Disruptions in distribution of rations and reports of localized food shortages are cited as the main proof of an impending crisis. Some experts also cite evidence that the 2005 harvest was less bountiful than initially reported.

¶2. (C) South Korean analysts and government officials believe that the food situation will indeed remain quite desperate during 2006. They blame the DPRK's return to the Public Distribution System (PDS), compounded by the expulsion of most NGO's -- most importantly the World Food Program (WFP) -- for the possible famine. Still, South Korean experts think that some significant additional factor -- some kind of natural or man-made disaster -- would be needed for North Korea to reprise the widespread starvation of the 1990's. The Embassy's view is that, given the difficulty that North Korea will certainly experience trying to prevent black market behavior, the risk of a major famine should not be discounted. End summary.

DPRK GOVERNMENT TO BLAME

¶3. (C) EconOff spoke with Kwon Tae-jin, Senior Fellow at the Korea Rural Economic Institute (KREI), about reports of an impending food crisis in the DPRK. Dr. Kwon is widely regarded as a leading government expert on the North Korean agricultural economy, and has the benefit of access to a variety of Korean government sources on North Korea. According to Kwon, the availability of food in North Korea has tightened for a number of reasons. First, April, May and June are historically lean months for Koreans, as winter stocks are consumed and the first harvests of the new year are not yet ready. While South Korea has advanced beyond this simple fact of agrarian life, the North still suffers from the annual phenomenon.

¶4. (SBU) However, the more important causative factor for

upcoming shortages, Kwon said, is the re-establishment of the Public Distribution System by DPRK officials, and the coinciding ban on private trading or retailing of grain. As the North Korean central government attempts to regain control over food supply and distribution channels, those who have food to sell are holding it closely, in order to avoid seizure of their food stocks. Those with illegal stocks seek to avoid punishment for hoarding. In Kwon's opinion, the DPRK's localized food shortages are largely attributable to this combination of seasonal shortages and inefficiencies inspired by the PDS.

¶15. (C) At the same time, Kwon downplayed the concern expressed by some that North Korea could be facing a full-fledged famine. The cries of alarm, he said, are coming mostly from NGO's and non-expert individuals working in the DPRK. "They are always alarmists," he quipped. Interestingly, Kwon told us that because KREI has no counterpart organization in the DPRK to rely upon as a partner, he himself uses NGO channels to visit and conduct direct research on the North.

UNIFICATION MINISTRY NOT WORRIED

¶16. (C) EconOff also met with Kim Jin-goo, Director for Humanitarian Assistance Planning at the Ministry of Unification. Kim similarly downplayed predictions of a crisis situation. Kim explained that North Korea has had a chronic shortage of food over the past decade, following the famine of the 1990s. In that context, Kim said, the South Korean government -- while not yet prepared to "regularize" food assistance to the DPRK -- has accepted that it will have to continue to provide food and fertilizer assistance in order to avoid another large-scale famine. Kim insisted that the South Korean government would continue to evaluate each DPRK demand for assistance on a case-by-case basis.

¶17. (C) When asked about the status of South Korean food assistance to the DPRK for 2006, MOU's Kim responded that no decision had been made yet on rice shipments. He went on to declare that rice shipments to North Korea, averaging between 400-500,000 tons annually for nearly a decade, are not automatic and that the ROK government would have to discuss the DPRK demand. When a decision is made to send more rice, it would take two months to procure, ship, and deliver the rice to individual recipients in the DPRK.

¶18. (SBU) Meanwhile, on the fertilizer front, the South has already completed a shipment of 150,000 tons of fertilizer this year and the second shipment of fertilizer -- amounting to some 200,000 tons -- began in mid-May and is expected to be completed by mid-July. According to Kim, the South Korean government has not yet decided whether it will send the remaining 100,000 tons of fertilizer sought by the North.

FUTURE'S NOT BRIGHT

¶19. (SBU) According to studies conducted by KREI, DPRK crop yields continue to fall year by year. The decline stems from a reduction in arable land and a reduction in productivity due to advancing soil degradation. According to studies by KREI's Kwon, without the fertilizer assistance provided by the South, North Korea's rice yields would be only fifty percent those of the South. With the fertilizer assistance, northern rice growers can achieve per hectare yields equal to ninety percent of their southern counterparts.

¶10. (SBU) North Korea's food requirement is around six million tons annually. KREI, while unable to make precise forecasts, predicts that the harvest for this year will yield only about four million tons. When combined with the nearly half-million tons the South has traditionally dispatched to the DPRK, plus China's food assistance, plus the food distributed by WFP, the food situation will be bad, but not terrible, according to Kwon.

¶11. (C) In a surprising confession, Kwon claimed that the reason South Korea has been sending approximately 400-500,000 tons of food is simple: that is the amount of surplus rice produced by the South's farmers. If the South Korean government wanted to send more than that, it would be forced to import the difference. Therefore, even though the South Korean government realizes that the North needs more food, Southern officials are hesitant to import, and pay for, rice that would subsequently be shipped north.

¶12. (C) We spoke to Kwon just days before the announcement of WFP's letter of understanding for a smaller-scale operation in North Korea. Kwon predicted then that once WFP reached an accord with the DPRK, the South Korean government would make a donation, probably equal to years past, for distribution through WFP's program. During our meeting with MOU's Director Kim, he verified continued South Korean support for WFP and deflected further questioning by asking whether the USG had received a donation request from WFP, and if so what the likely response would be.

COMMENT

¶13. (C) Although we have little independent evidence to cite, and we hope we are wrong, the Embassy's view is that NGO assertions concerning the risk of a major famine should not be casually discounted. All reports indicate that the DPRK's Public Distribution System has become seriously dysfunctional over the past decade, with change accelerating during the four years since the July 2002 economic reforms. The key difference between the current situation and the 1990's is that market behavior has been learned by a larger proportion of the North Korean populace. Once learned, such behavior is not easily unlearned, and therefore there is every reason to expect that a vibrant black market will soon emerge for North Korean grain. Anticipating those black market opportunities, in turn, North Korean farmers and others with access to wholesale stocks or distribution channels have every

incentive to divert and hoard supplies for sale at inflated prices in black markets, outside the PDS.

¶14. (C) If such a scenario does transpire, DPRK authorities will certainly try in the first instance to stamp out black marketeering. But in light of internal communication problems and spreading corruption in the North, it would seem unlikely that the regime could be entirely successful in preventing hoarding. Given the narrow margin of food supplies, the default response might then be to lower PDS rations, punishing (again) the politically weak in the DPRK. With its reduced supplies and constrained geographical reach, the WFP is also less capable than before of reaching the neediest North Koreans.

VERSHBOW